

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
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IGA-02 /091 W
-----150406Z 042498 /67

R 141003Z FEB 77
FM AMEMBASSY DACCA
TO SECSTATE WASHDC 0000

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E.O. 11652: N/A
TAGS: EINV, BG
SUBJECT: DISINVESTMENT: PROGRESS REPORT

REFS: A. DACCA A-105, SEPT. 10, 1975, B. DACCA A-90,
AUG. 16, 1976

1. SUMMARY. RECOGNIZING THE VERY HIGH ECONOMIC AND SOCIAL COST OF CONTINUING STATE MANAGEMENT AND CONTROL OF THE MANY INDUSTRIAL UNITS TAKEN OVER OR NATIONALIZED IN 1972, THE PRESENT GOVERNMENT HAS EMBARKED ON A PROGRAM OF DISINVESTMENT AUCTIONING MANY OF THESE UNITS TO PRIVATE BIDDERS. THE PROCESS IS WELL UNDER WAY AND INCLUDES ALL INDUSTRIAL UNITS, EXCEPT CERTAIN JUTE MILLS AND ALL SUGAR AND TEXTILE MILLS. TEA GARDENS AND INLAND WATER TRANSPORT VESSELS ARE ALSO BEING SOLD TO PRIVATE SECTOR BUYERS. THE PROCESS, DESPITE CONSIDERABLE BUDGETARY COST, IS WELL ADVANCED, BUT WILL TAKE ANOTHER TWO YEARS OR SO TO BE COMPLETED. DISINVESTMENT WILL HELP MOBILIZE DOMESTIC RESOURCES AND FREE SCARE BDG CIVIL SERVICE MANAGERS TO CONCENTRATE ON DEVELOPMENT TASKS. END SUMMARY.

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2. BACKGROUND. IN 1972, THE BDG NATIONALIZED THE JUTE, SUGAR AND TEXTILE MILLS, AS WELL AS GENERAL INSURANCE COMPANIES, BANKS AND SEVERAL INLAND WATER STEAMSHIP FIRMS. IN ADDITION, MANY-INDUSTRIAL UNITS WERE ABANDONED BY THEIR WEST PAKISTANI OWNERS AND THESE WERE TAKEN OVER BY THE GOVERNMENT. IN ALL, 85 PERCENT BY VALUE OF

BANGLADESH'S INDUSTRIAL UNITS CAME UNDER GOVERNMENT MANAGEMENT OR CONTROL. THE COMBINATION OF THE ABRUPT DEPARTURE OF TOP WEST PAKISTANI PRIVATE SECTOR MANAGEMENT, WAR-TIME DESTRUCTION, CORRUPTION, SEVERE LABOR UNREST, AND THE ABSENCE OF MANY BANGLADESHI CIVIL SERVANTS UNABLE TO LEAVE WEST PAKISTAN LED TO EXTREMELY SERIOUS MISMANAGEMENT OF THESE UNITS, MOST OF WHICH SUFFERED LARGE FINANCIAL LOSSES (REF A). INSTEAD OF GENERATING DOMESTIC RESOURCES FOR BDG INVESTMENT IN DEVELOPMENT, THEY WERE A FINANCIAL BURDEN. MANY FINANCED THEIR LOSSES BY BORROWING FROM THE NATIONALIZED COMMERCIAL BANKS, WHICH WAS HIGHLY INFLATIONARY. BY 1975, THE GOVERNMENT HAD GIVEN ATTENTION TO WAYS OF RETURNING AT LEAST MANAGEMENT CONTROL TO PRIVATE BUSINESSMEN. THE PRESENT GOVERNMENT HAS IN ITS 15 MONTHS IN OFFICE IMPLEMENTED A CLEAR PROGRAM OF "DISINVESTMENT," I.E., AUCTIONING THESE UNITS TO PRIVATE BIDDERS.

3. ORGANIZATION. THE 13-MEMBER INVESTMENT BOARD, CHAIRED BY PRESIDENTIAL ADVISOR (INDUSTRIES) HAFIZUDDIN, AND INCLUDING AL-HOSSAINY, PLANNING COMMISSION MEMBER (INDUSTRIES) AND INDUSTRIES SECRETARY MAJIDUL HUQ, IS RESPONSIBLE FOR INVESTMENT MATTERS AND FOR DISINVESTMENT. TWO DISINVESTMENT GROUPS REPORT TO THIS BOARD.

(A) DISINVESTMENT COMMITTEE. THIS COMMITTEE, CHAIRED BY RASHID UL HASSAN, DIRECTOR GENERAL INDUSTRIES, HANDLES INDUSTRIAL UNITS VALUED UNDER TAKA 1,500,000 (\$100,000 EQUIVALENT), ABANDONED AFTER INDEPENDENCE AND LIMITED OFFICIAL USE

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TAKEN OVER UNDER P.O. 16 FO 1972.

(B) WORKING GROUP. THIS GROUP, CHAIRED BY ZAINUL ABEDIN, JT. SECRETARY, INDUSTRIES, IS RESPONSIBLE FOR THE DISINVESTMENT OF SELECTED INDUSTRIAL UNITS FALLING UNDER BANGLADESH CORPORATIONS (AND HENCE UNDER THE NATIONAL INDUSTRIES WING OF THE INDUSTRIES MINISTRY) AND ANY UNITS VALUED OVER TK 1,500,000 UNDER THE CONTROL OF THE DIRECTOR GENERAL, INDUSTRIES.

IN ADDITION, THE MINISTRY OF COMMERCE (CHOUDHURY A.K.M. AMINUL HAQUE, JT. SECRETARY) IS RESPONSIBLE FOR THE DISINVESTMENT OF BDG-OPERATED TEA ESTATES.

4. PROCEDURES. THE UNITS TO BE DISINVESTED ARE SOLD AT AUCTION. THE SUCCESSFUL BIDDER PAYS 20 PERCENT DOWN AND THE REMAINING 80 PERCENT OVER THE FOLLOWING 9 YEARS, SO THE GOVERNMENT ONLY RECEIVES THE FULL AMOUNT OVER TEN YEARS. HOWEVER, COSTS PAID BY THE BDG AT THE TIME OF THE TRANSFER SUCH AS TAXES, EMPLOYEE TERMINATION

BENEFITS, AND OTHER OBLIGATIONS FREQUENTLY EXCEED THE DOWN-PAYMENT, SO THE BDG LOSES MONEY DURING THE FIRST YEAR. FOR EXAMPLE, THE TOTAL SALE PRICE OF ONE GROUP OF TEN UNITS WAS TAKA 31,130,923 AND HENCE THE 20 PERCENT DOWN PAYMENT TAKA 6,226,184. HOWEVER, THE TOTAL DUE (IN TAXES ETC.) AT THE TIME OF TRANSFER OF THESE TEN UNITS WAS TAKA 14,316,881. THUS, TO SELL THESE TEN UNITS COST THE BDG IN 1976/77 TK 7,990,697. THE GOVERNMENT IS WILLING TO BEAR THESE IMMEDIATE COSTS BECAUSE OF THE INDIRECT BENEFITS INVOLVED, MR. ABEDIN TELLS U. THE OVERCOME POTENTIALLY SERIOUS LABOR DISSATISFACTION, THE BDG HAS DECIDED TO PAY THE FIRMS' EMPLOYEES THE FULL COMPENSATION TO WHICH THEY WERE ENTITLED UNDER THE LABOR LAWS AND TERMINATE THESE EMPLOYMENT AT THE TIME OF TRANSFER TO THE PRIVATE BUYER. THE LATTER MAY, OF COURSE, REHIRE ONE OR ALL OF THESE EMPLOYEES.

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5. PROGRESS TO DATE.

(A) DISINVESTMENT COMMITTEE: SO FAR ALL BUT 33 OF 198 UNITS HAVE BEEN RETURNED TO THE PRIVATE SECTOR. THE FINAL 33 ARE EXPECTED TO BE SOLD (OR AS APPROPRIATE RETURNED TO THEIR ORIGINAL BENGALI OWNERS) BY JUNE 30, 1977.

(B) WORKING GROUP. OF SOME 300 UNITS EVENTUALLY TO BE DISINVESTED, 83 HAD BEEN "SCHEDULED" (I.E., SELECTED, INCLUDING VALUATION) AND 44 ADVERTISED, FOR SALE BETWEEN APRIL AND OCTOBER, 1976. OF THESE 44, TWENTY-FOUR BIDS HAD BEEN ACCEPTED TO DATE. MOST OF THOSE ADVERTISED WERE TANNERIES OR CHEMICAL PLANTS. AFTER A HIATUS TO IMPROVE PROCEDURES, THE BDG WORKING GROUP IS TO ADVERTISE ADDITIONAL UNITS AGAIN THIS QUARTER.

6. OTHER: (A) TEA ESTATES. SOME 29 TEA GARDENS WERE DECLARED ABANDONED OR TAKEN OVER AS ENEMY PROPERTY IN 1971. OF THESE, 14 ARE TO BE AUCTIONED OFF BY THE TEA INDUSTRIES MANAGEMENT COMMITTEE AND THE FIRST TENDER NOTICES APPEARED IN MID-JANUARY. NO DECISION HAS YET BEEN TAKEN ON THE REMAINING 15 ESTATES.

(B) RIVER CRAFT. SOME 200 RIVER CRAFT, ALSO DECLARED ABANDONED IN 1972 ARE TO BE SOLD BY THE BANGLADESH INLAND WATER TRANSPORT CORPORATION. THE BIWTC INHERITED AFTER INDEPENDENCE ABOUT 750 SUCH CRAFT FROM TWO STATE-OWNED AND SEVEN PRIVATE FIRMS. AUCTION NOTICES FOR 75 VESSELS HAVE ALREADY APPEARED.

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ACTION NEA-10

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7. POLICY OUTLOOK. THE BDG HAS REDUCED TO EIGHT THE LIST OF INDUSTRIES RESTRICTED TO GOVERNMENT OWNERSHIP. AT PRESENT, THE LIST INCLUDES CERTAIN JUTE GOODS (I.E., SACKING, HESSIAN, AND CARPET-BACKING), COTTON TEXTILES, AND SUGAR REFINING AS WELL AS POWER GENERATOR, CIVIL AVIATION, DEFENSE PRODUCTION, ATOMIC ENERGY AND POSTS, TELEGRAPH AND TELEPHONES. THE BDG MAY DECIDE TO DIS-INVEST AT LEAST SOME UNITS OF THE FIRST THREE CATEGORIES (JUTE, TEXTILES, SUGAR), OFFICIALS HAVE HINTED TO US. (BANGLADESH COMMERCIAL BANKS AND GENERAL INSURANCE, BOTH OUTSIDE THE INDUSTRIES SECTOR, REMAIN NATIONALIZED.)

8. FOREIGN INVESTMENT. NONE OF THE DISINVESTED UNITS HAS BEEN SOLD TO PRIVATE FOREIGN INVESTORS; INDEED NO FOREIGNER HAS BID FOR ONE, BUT BDG OFFICIALS KNEW OF NO DECISION WHICH WOULD RULE OUT SUCH FOREIGN PURCHASES (EXCEPT IN THE SPECIFIC CASE OF TEA ESTATES). CERTAINLY, A JOINT VENTURE ARRANGMENT WOULD ALWAYS BE POSSIBLE.

9. COMMENT. DISINVESTMENT WILL CONTRIBUTE TO MOBIL-
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IZING DOMESTIC RESOURCES AND HELP FREE SCARCE MANAGEMENT

TALENT FOR DEVELOPMENT. THE INDUSTRIAL UNITS, TAKEN OVER OR NATIONALIZED BY THE GOVERNMENT HAVE GENERALLY BEEN MISMANAGED. MANY LOSE MONEY; CAPITAL EQUIPMENT IN NUMEROUS CASES IS UNUSED, UNREPAIRED, OR LITERALLY RUSTING. VIRTUALLY ALL ARE SERIOUSLY OVERSTAFFED. FEW PAY ANYTHING LIKE A COMMERCIAL RETURN TO THE BDG (SEE REPAIR B). IT IS HIGHLY PROBABLE THAT THE BDG WILL OBTAIN A FAR HIGHER FINANCIAL RETURN FROM TAXES ALONE, AFTER DISINVESTMENT. THE SOCIAL COSTS OF CONTINUING BDG MANAGEMENT ARE ALSO VERY HIGH. THE LIMITED NUMBER OF CIVIL SERVANTS ARE, AT PRESENT, STRETCHED VERY THIN, WHILE NUMEROUS PRIVATE SECTOR ENTREPRENEURS ARE ENGAGED SOLELY IN TRADING ACTIVITIES. BY SUBSTITUTING PRIVATE SECTOR MANAGEMENT FOR CIVIL SERVANTS, THE LATTER MAY BE RELEASED FOR PRIORITY DEVELOPMENT TASKS. WHILE THE DISINVESTMENT PROCESS IS NECESSARILY SLOW, THE BDG, AT CONSIDERABLE BUDGET COST, IS PROCEEDING FAIRLY STEADILY AND MAY BE EXPECTED TO COMPLETE IMPLEMENTATION OF THIS POLICY WITHIN TWO YEARS.

MASTERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, PROGRESS REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977DACCA00791
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770052-1080
Format: TEL
From: DACCA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770245/aaaabnwt.tel
Line Count: 245
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: fffe6dc7-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 DACCA A-105, 77 DACCA A-90
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3331206
Secure: OPEN
Status: NATIVE
Subject: DISINVESTMENT: PROGRESS REPORT
TAGS: EINV, BG
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/ffe6dc7-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009